INVESTOR DAY 2014: INVESTMENT SERVICES

Brian Shea, Chief Executive Officer, BNY Mellon Investment Services
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Thanks, Kurt, and good morning everybody. We're very pleased to have the opportunity to share our investment services plans with you this morning.

We are the global leader in investment services, connected to the world's largest investments company, and I'd echo Curtis' remarks thatrwe benefit immensely from having one of the smartest and largest investment management companies as our in-house client and adviser in every solution we develop. It's a huge advantage for our company. And we have a distinct business portfolio, which enables us to create client solutions and growth opportunities, which are unique to BNY Mellon.

We have clear strategic growth priorities to improve our client solutions and financial results in both the short and long term. I will explain our plans to create more client and shareholder value within each business across our enterprise by investing in high-growth markets, by improving our return on our existing technology investment and turning technology into more of a strategic advantage and competitive weapon for BNY Mellon, and by turning regulatory change into a business opportunity wherever possible.

Our transformation process, which I'm going to tell you more about, is funding the execution of our strategy. And we will continuously improve our productivity and drive productivity up and structural cost down every step of the way.

Our recent financial results demonstrate that our new business alignment and our transformation process are already making a difference. We are not counting on the market environment to improve or interest rates to normalize to drive our financial results. Rather, we are actively leading change to improve our business performance regardless of the market environment.

We are fortunate to be a market leader in each Investment Services business today, and we are driving improved performance by more thorough collaboration across these businesses. We have realigned Investment Services to achieve three strategic high-level goals. We are determined to be the highest value provider of investment services globally, the industry service quality and productivity leader, and the investment industry technology leader.

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This alignment is helping us create more cross-business client solutions and execute our transformation process faster, which delivers both client and shareholder value. Our Investment Services revenue base is diverse and can be summarized into three major categories: recurring fee revenue, transactional revenue and interest- or spread-driven revenue.

This revenue diversity is a source of strength. But we have not been immune to the impact of lower interest rates on net interest income or securities lending spreads. Our transactional revenue has been negatively impacted by lower volume and volatility in our trading businesses. We expect our NII or spread-related revenue to improve with the eventual normalization of interest rates and we expect our transactional revenue to improve with higher market volumes and volatility as the economy improves.

But the truth is, we can't control those market forces. So we're focused on driving recovering fee revenue growth, which is a more stable, more consistent and more valuable source of revenue for the company. Our plan is to drive recurring fee revenue growth from business and technology solutions that we can better control.

Here is a closer look at our revenue mix and the dynamics of our business from 2011 through 2013. We delivered revenue growth of 3.3% across Asset Servicing, clearing services and the Treasury Services business. In fact, revenue in these three businesses has grown by 5% in the past year. So it's accelerating.

Turning to the right, we've experienced revenue declines in our higher-margin issuer businesses, which include Corporate Trust and Depositary Receipts. Lower interest rates and market volatility have negatively impacted our net interest income, money fund fees, and FX trading revenue as well. But we expect the decline in our Corporate Trust revenue to moderate and reverse itself in the next 12 to 18 months.

Nevertheless, we recognize that factors beyond our control like interest rates and volatility have depressed our natural growth rate. As a result, during the 2011 to 2013 period, our non-interest expense growth exceeded our fee revenue growth. Now, obviously this is not a satisfying outcome. So we realigned our businesses and developed a broad transformation process, which is already creating results. In the last months, our fee revenue growth has again exceeded our non-interest expense growth. As a result, our fee to expense coverage ratio has improved to 94%, which is evidence of progress. Let me be clear that we're not content with these results. But we have turned the corner, we are moving the needle and we are committed to building on this recent success.

Now, let me share some insight into our growth strategy.

Each of our Investment Services business has a distinct set of competitive dynamics and client needs. So we have specific plans to lead profitable growth within each business. Some of these opportunities are actually enhanced by regulatory change, such as the increase of self-clearing firms that are exploring clearing through Pershing or the growing demand for collateral services, which Kurt just mentioned. In addition, HedgeMark provides risk management analytics and managed account tools for institutional investors who are seeking better governance and transparency around hedge funds and alternative investments.

Our distinct business portfolio also enables us to create client solutions and value that our competitors can't match. So we're asking our business leaders to think beyond their own individual business to create cross business client solutions which enhance client relationships and improve our revenue growth.

Speaking of client relationships, we are fortunate to serve a diverse group of industry-leading clients across multiple market segments. We believe this client and market segment revenue diversity is another source of strength. Industry-leading clients have the absolute highest standards, and our ability to meet or exceed their expectations raises our value for all of our clients.

The majority of our clients utilize solutions from both Investment Management and Investment Services. So they are truly BNY Mellon enterprise clients and Curtis mentioned that as well. In fact, just to give you a stat, 75% of our top 100 clients are enterprise clients, and they generate $3.1 billion in revenue for our company today.

Investment Management's increased focus on retail intermediary and retirement distribution enables us to create even more value for and from these enterprise client relationships. Our increased focus on cross-business solutions enhances our ability to create value for clients and shareholders.

The combined capabilities and intellectual capital of Investment Management and Investment Services strengthens our overall client value proposition. These are some of the ways we're leveraging the BNY Mellon franchise to create value today and there are more ahead. Let me just highlight a few examples to bring this to life for you.

First, Pershing broker-dealer and advisor clients now choose Dreyfus money fund and cash management solutions about one-third of the time. In addition, BNY Mellon custody clients also choose Dreyfus money funds almost one-third of the time. Collectively, our Investment Services clients invest over $125 billion in cash management assets with Dreyfus, and the value of those investments will rise substantially when interest rates normalize.

We believe we can build on the success of these Dreyfus cash management relationships with our clients to deliver more investment choices such as mutual funds and managed account solutions from our Investment Management group.

A second example – and Curtis referenced to this – is last year we launched the pilot program to deliver private banking solutions to Pershing’s independent registered investment advisor clients. And we've already provided credit facilities such as investment credit lines and jumbo mortgages in excess of three quarters of a billion dollars in one year. And now we're extending those private banking services to our broker-dealer clients, as well.

A third example is that our Asset Servicing team provides a mutual fund sub-accounting platform, which enables Pershing to support millions of individual investors in their mutual fund investments and 529 plans – another example of the 30 different fund manager clients who now benefit from our integrated prime brokerage and prime custody model, which Kurt just referenced.

Now I just touched on four examples, but there are many more. The punch line is we are leveraging the BNY Mellon franchise more effectively to create real value for our clients and our shareholders today and we have specific plans to create even more value in the future.

This historic period of low economic growth, low interest rates and rapid regulatory change has put pressure on all major financial institutions. But it also creates growth opportunities for us in Investment Services.

In this environment, financial institutions are increasingly looking for technology and business solutions which lower their capital investment and liquidity requirements, reduce their capital investment overall, lower their cost and improve their profitability. Our Investment Services business model does exactly that. It delivers variable costs, shared economies of scale solutions which reduces our clients' capital investment and improves their profitability.

And under the pressures of this environment, even the biggest and the best financial institutions are reevaluating their value proposition and they are relying more on the variable cost business solutions that we deliver. As a result, we are making strategic platform investments in high-growth markets aligned with a high-quality anchor client in each case.

Each of these markets serving global wealth managers, mutual fund managers, hedge fund managers and alternative investment managers with alternative investment services have strong growth dynamics. So we're developing platform solutions that can be leveraged by all of our clients to create the shared economies of scale both our clients and our shareholders benefit from.

These strategic platforms require substantial upfront investment but we believe the long-term returns justify these important investments in the future of our company.

Some of you have asked for more transparency regarding our strategic platform investments and, as you can see, these investments create a drag on our margins in the near-term but become additive in 2017 and create significant revenue growth and margin expansion beyond that. Our transformation process will fund these strategic platform investments and we will still deliver improved financial results, which I'll explain shortly.

The biggest variable or wild card in our business and financial plans is global regulatory change. This month marks the six-year anniversary since the peak of the financial crisis and we're just over 50% through the implementation of global regulatory reform. Some regulatory changes are in clear focus now, which improves our ability to estimate the impact on our clients and in our business model but there are more regulatory changes still in development, so there is still a reasonable degree of uncertainty ahead. These are just selected examples of the regulatory changes that we have on our radar screen right now and it's not an all-inclusive list by any means.

In order to fund this ongoing regulatory change, invest in strategic growth, and adequately reward shareholders along the way, we need to actively transform our business and so we are. As I mentioned earlier, last year we launched a broad-based transformation process. It's an enterprise transformation process and it's important because it enables us to fund our revenue growth, deal with regulatory change investments and still deliver positive operating margins and shareholder value along the way. Through our transformation process, we've already identified specific initiatives to generate $500 million in structural cost savings over the next three years. And though we have a clear line of sight on $500 million, we are serious about transformation being a continuous improvement process. So we will build on this total as our transformation process matures.

Our transformation process has four key components.

- Business excellence is about maximizing our business performance by implementing best practices and learning from each other across Investment Services.
- Continuous process improvement is about improving the client and employee experience and service quality while reducing risk and costs.
- Corporate services is about optimizing our procurement, vendor management.
- And real estate portfolio and client technology solutions excellence is about improving our return on technology investment and positioning technology as more of a strategic asset to our company and future revenue source.

Let me briefly share some insight on each of the four components.

The business excellence process has many parts but, for the sake of time, I'll just highlight our business portfolio review process. As Gerald mentioned, we are continuously reviewing subscale low-margin and unprofitable businesses through a forward-looking regulatory change lens. We have already taken all the actions you see here and we will continue to optimize our portfolio on an ongoing basis. The goal is simple. We are actively reducing investment in activities that don't create enough client and shareholder value and reinvesting the money in activities and solutions that do.

The continuous process improvement component of our transformation process seeks to improve our client and employee productivity and service quality while reducing cost and risk. In our previous operational excellence efforts, we did a good job at shifting work to lower cost locations but our continuous process improvement strategy is different; it changes the very nature of the work. For example, we've identified 40 core global processes and are assigning leaders to baseline and benchmark unit costs and process costs for each of these processes. We're also measuring straight-through processing rates for each process and setting goals for ongoing improvement and we've consolidated or retired hundreds of technology applications in the past two years, including the retirement of one of our core custody platforms. We are using all the levers outlined here with the aid of Digital Pulse, our new Big Data solution, to drive continuous productivity improvement, lower structural costs, both for our clients and for our company.

The next component of our transformation process is corporate services. This effort will create more value from our external vendor and internal business partner relationships. We're also leveraging our scale more effectively in the procurement process and we're aligning our business and global process owner strategy with our real estate strategy. In the future, we will operate out of fewer, more cost-efficient locations, enabling us to collaborate more effectively and create career pathing opportunities for our employees. This will also simplify our global footprint and reduce our real estate costs significantly over time.

As Gerald mentioned, the recent sale of our headquarters building at One Wall Street significantly reduced our footprint in lower Manhattan and it demonstrates our commitment to making the difficult and challenging decisions necessary to transform this company for future success.

The final component of our transformation plan is client technology solutions excellence. You'll be hearing more about our technology strategy in some detail from our CIO, Suresh Kumar, in just a few minutes. So I won't step on all of his lines. But let me just set the stage for Suresh from a business strategy perspective.

To be the highest value provider of investment services globally, we believe we need to be the industry technology leader as well. We have always delivered the reliable technology our clients depend on for clearing for custody for settlement and for core processing, but now we're shifting our strategy to develop, integrate, and deliver technology solutions to help our clients manage their entire business more profitably across the entire investment lifecycle. This means we increasingly think of BNY Mellon as a technology and business solutions company. Services such as clearing, custody and core processing will still serve as the foundation of what we do, but we're extending our value proposition by extending the technology platforms and solutions we deliver.

To support the execution of this vision, we need to create a higher return on our existing technology investment and Suresh will explain exactly how we're doing that already. We will leverage this improved return on our existing technology investment to extend our client technology solutions and make our clients and our company more profitable in the process. Today we generate about $400 million in revenue from technology solutions and we think that's just the beginning. Our new technology strategy will strengthen client relationships, drive recurring fee revenue growth, and create a competitive advantage for BNY Mellon in the future.

Before we turn to our three-year financial targets, let me briefly summarize what we've just covered quickly. We are committed to three simple but very powerful goals. We have clear priorities, to accelerate revenue growth, to improve the performance of our existing business and comply with new regulatory mandates, and to execute our transformation process to fund all of these priorities.

The bottom line is that we're going to continuously improve our productivity and reduce structural costs and improve our return to shareholders every step of the way.

And speaking of the bottom line, let me summarize how all this translates into financial results.

We have two sets of financial goals, one based on no change in interest rates or a flat-rate scenario and the other is based on normalized interest rates beginning in the middle of 2015, which Todd Gibbons is going to explain in more detail in a little while.

In a flat-rate scenario, we believe we can achieve revenue growth in a range of 3% to 4% and pre-tax income growth in the range of 4% to 6%.

And in a normalized rate environment, we believe we can achieve higher revenue growth in a range of 4% to 6% and pre-tax income growth between 10% and 12%.

Now, we obviously can't control the timing and direction of interest rates or frankly we would have raised them a lot sooner, but we can control our own transformation process, we can improve our own productivity, and we can reduce our structural costs and we will do all of those things.

These goals reflect our strong belief that we can improve shareholder returns regardless of the interest rate environments. And these financial goals reflect our confidence in our own ability to execute the plans we just discussed and build on the improved results that you've been seeing in the past year.

We really appreciate the opportunity to share our Investment Services plan with you this morning and look forward to engaging with you later in the Q&A or in the Tech Expo.

And we really do thank you for your investment of time with us.

CAUTIONARY STATEMENT

investment management financial goals in a flat and rising rate environment; positioning of markets group for outperformance; markets group strategic priorities and impact on growth, profitability and return on capital; estimated revenue contribution by business line of markets group; markets group revenue growth and operating margin; investment services strategic priorities and transformation process and impact on operating margins and earnings growth; strategic platform investments and margin impact; investment services fee growth; investment services financial goals in a flat rate and rising rate environment; strategic priorities in technology; estimated indexed storage demand, demand for computing, infrastructure cost, headcount, application development unit and total cost and strategic investment as a percentage of portfolio; technology infrastructure and monetizing technology capabilities; and statements regarding the Corporation's aspirations, as well as the Corporation's overall plans, strategies, goals, objectives, expectations, estimates, intentions, targets, opportunities and initiatives. These forward-looking statements are based on assumptions that involve risks and uncertainties and that are subject to change based on various important factors (some of which are beyond the Corporation's control).

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